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POWERMATTERS

http://www.abag.ca.gov/services/power

Proposition 9 - Consumer's Dream or Taxpayer's Nightmare?

Legislative Analyst Estimates $250 Million Annual Losses to State and Local Governments

PROPOSITION 9 - A CONSUMER'S DREAM?

As election day approaches, ABAG members will undoubtedly be bombarded with information on Proposition 9, a voter initiative concerning electric utility deregulation. Although the measure is supported by consumer groups, it is opposed by a broad coalition of government, business, environment, education, public safety, and consumer groups.

Proposition 9 seeks to:

- Prohibit the recovery of transition costs for nuclear power plants through utility taxes, bond payments or surcharges;
- Limit the recovery of non-nuclear transition costs;
- Reduce electricity rates by 20 percent;
- Eliminate customer charges associated with the rate reduction bonds; and
- Restrict the release of customer information.

On August 19, 1998, ABAG POWER reviewed the proposition and voted to oppose it. On September 17th, ABAG's Executive Board also opposed it. *Both urge local jurisdictions to oppose Proposition 9.*

EASING INTO DEREGULATION

In 1996 and 1997, California became one of the first states to deregulate the electricity industry following the passage of Assembly Bill 1890. State laws sought to make private electric utility companies more competitive while maintaining the availability and reliability of electricity.

The restructuring laws, primarily affecting Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison, consisted of three main provisions: (1) private electric utilities could recover their "transition" or "stranded" costs — those costs determined to be unprofitable in a competitive market — through surcharges to customers. [The California Energy Commission estimates such costs to be $6 billion.]; (2) rates for residential and small commercial customers would be reduced by ten percent; and (3) bonds could be sold allowing utilities to comply with the ten percent rate reduction. [By Dec. 1997, $6 billion in bonds were sold.]

Consumer groups judged AB 1890 to be too little, and too slow. They argue that, in passing the deregulation bill, utilities lobbied for a special deal that reduced competition and limited consumer choice in exchange for a minimal rate reduction; they responded with Proposition 9 for the November ballot.

TAXPAYER'S NIGHTMARE?

At face value, Proposition 9 seems to be pro-consumer; after all, who wouldn't want to see electric bills cut by 20 percent? Yet, after analyzing the details, this initiative will adversely impact not only electric utility competition, but also state and local government budgets. And here's why:

Although consumer groups believe Proposition 9 will hold utilities liable for the $6 billion bond payments, it is uncertain how the liability will be assigned. The possibility of long, drawn out lawsuits could cause instability in the bond markets, thus jeopardizing municipal issuances.

In addition, the 20 percent rate cut will lower the utilities' profit, thus reducing their corporate taxes. The Legislative Analyst estimates annual loss of state revenue up to $200 million if the initiative passes; and local governments would lose as much as $50 million a year (through FY 2001-02). These outcomes could have devastating effects on state and local budgets, which rely on these revenues to finance schools, police, fire, and other public services.

THE BOTTOM LINE

Proposition 9 promises lower rates for *consumers*, yet could hit *taxpayers* with a liability for over $6 billion in bond payments — savings from one pocket but a huge debt from the other.

In addition to the significant impact on state and local revenues, the State Legislative Analyst and State Director of Finance estimate that Proposition 9 will cost consumers and taxpayers roughly $5 million annually in increased workload for the Public Utilities Commission and the courts.

Local governments should oppose Proposition 9.

ABAG POWER Lights Up the Bay Area

But How Does It All Work?

So, you're not buying your power from the utilities anymore. Congratulations -- you are one of nearly 100,000 accounts that are taking advantage of the deregulation of electricity and natural gas.

ABAG POWER, your energy services provider (ESP), works with several other participants to keep your lights on. *But, how does it all work?*

First of all, two organizations (through legislative mandate) have been formed to usher in and manage deregulation: the Independent System Operator (ISO) and the Power Exchange (PX). They are both third-party organizations r[redacted] ernmental firms. ABAG POWE[redacted] "scheduling coordinator" for supple[redacted] critical to the process.

INDEPENDENT SYSTEM OPERAT[redacted]

The ISO is a not-for-profit comp[redacted] that manages the transmission syste[redacted] This means that all of the high pow[redacted] wires that transport electricity con[redacted] tinue to be owned by the utilities[redacted] but by having a third party contro[redacted] the use, more suppliers have com[redacted] petitive access to the electric gri[redacted] system.

The ISO's main job is to ensure [redacted] liability in the transmission system[redacted] does this by purchasing power fro[redacted] ties for voltage support, and by m[redacted] power plant failures and weather conditions.

The ISO also sells "ancillary services" and "imbalance energy." Ancillary services are the additional sources of power that are used to follow the variations in load in order to maintain a balance between generation and usage. Since it is impossible to forecast loads exactly, loads must be allocated along with an ISO-purchased reserve of power that ramps up and down with the load and keeps the transmission grid from suffering massive swings in power and load.

Imbalance energy represents the spot market of power, and allocates instantaneous power use costs (after the fact) to all of the areas that consumed more power than they had scheduled or had sent more power into the system than was needed.

All costs incurred by the ISO are passed on to the scheduling coordinators, who then pass them on to their customers.

POWER EXCHANGE

The PX is essentially an auction block for power. AB 1890, the deregulation bill, mandated the three major utilities to submit the power they produce to the PX, and purchase the power for their loads from the PX in order to establish a competitively indexed price (for the customer). [redacted]ugh utilities are the only entities [redacted]e the PX, others can and do partici-[redacted]uction process. [redacted]harges a fee for all purchases and [redacted]se costs are also passed on to the [redacted]ers. [redacted] the end of four years, when the [redacted]tilities will no longer be required [redacted]to buy power from the PX, the exchange may be eliminated from the process.

[redacted] SCHEDULING COORDINATOR

[redacted] The Northern California Power [redacted]Agency (NCPA) is the Scheduling [redacted]oordinator (SC) for ABAG POWER. [redacted]eduling coordinators are the inter-[redacted]ries between the PX, ISO, and [redacted]ey must call in to the ISO the route on the transmission grid they plan to use to transport the ESP's electricity, and report how they will match their customers' demand with supply.

If ABAG POWER needs to purchase power on the power exchange, NCPA submits the bid and then schedules all the power acquired from the PX (and suppliers) to the loads.

All bills for ISO and PX services and power go directly to the scheduling coordinator which allocates and bills each ESP for its portion of the costs.

NCPA also provides ABAG POWER with services such as load forecasting and supply management.

Arizona Public Service, the billing agent, collects cost information from the scheduling coordinator and the utility.

(continued on page 3)

Natural Gas Deregulation Update

Governor Signs and Vetoes Legislation

WILSON APPROVES SB 1602

On August 25, 1998, Governor Pete Wilson signed into law Senate Bill 1602, a natural gas deregulation bill, authored by State Senator Steve Peace (D-El Cajon), chair of the Senate Energy, Utilities and Communications Committee.

SB 1602 allows the Public Utilities Commission to investigate the restructuring of natural gas services, but *prohibits* the Commission from enacting any gas industry restructuring decisions for core customers prior to January 1, 2000.

This law has dealt a blow to the continued deregulation of the natural gas industry.

The current gas environment, under the Gas Accord, does not allow for the unbundling of all natural gas service components and costs. This means that pipeline allocation for gas transportation, storage allocation and use, and usage forecasts are all dictated by PG&E—sometimes to an aggregation's economic disadvantage.

Deregulation of the marketplace would give aggregators, such as ABAG POWER, the ability to actively manage storage and pipeline capacity according to market conditions.

Several groups, however, are working towards unbundling PG&E costs, not for deregulation purposes as the utilities claim, but to provide a basis for ensuring that customers who elect to receive competitive natural gas services from an entity other than the utility will not be charged by the utility for those services.

SB 1757 IS VETOED

Senate Bill 1757, also introduced by Senator Peace, was vetoed by Governor Wilson on September 29, 1998.

This measure would have (1) prohibited gas utilities from offering electric services to any electric corporation customer until the PUC authorizes the unbundling of gas costs, rates and services; and (2) required the PUC to enter into a Memorandum of Understanding (MOU) with the Electricity Oversight Board (EOB) regarding lead agency status at the Federal Energy Regulatory Commission (for specified electricity issues).

According to John Rozsa, consultant to the Senate Energy Committee, this latter provision is provided for in the budget bill, but is only valid for the current fiscal year.

In his veto message, Governor Wilson wrote, "This bill (SB 1757) is unnecessary. Earlier this year, I signed SB 1602 which contains the same provisions regarding the timing of PUC decisions on deregulation of the natural gas industry. Further, the negotiation of a MOU between the PUC and EOB are currently in statute and therefore, additional statute is not necessary."

ABAG POWER (cont.)

The utility still charges all users for distribution, transmission, franchise fees, nuclear decommissioning, public purposes programs and the Competition Transition Charge (CTC), which pays for the bonds used to finance the utility's liabilities.

Once the billing agent collects all the information, it determines what the actual charges are for each account. (The agent also collects all customer levelized payments.)

So, where does the actual power come from? ABAG POWER has four suppliers from which to purchase power: Arizona Public Serves, PG&E Energy Services, Pacificorp, and Seattle City Light. ABAG POWER manages the power portfolio by buying the electricity in a variety of ways from the four suppliers and the PX—daily, seasonally, in year-long blocks and with fixed and floating prices.

For more information, call Heidi Cruz, manager of ABAG POWER, at 510/464-7908 or e-mail HeidiC@abag.ca.gov.

UPCOMING EVENTS

POWER MATTERS '98

A Conference on Energy Deregulation for California Businesses and Public Agencies

NOVEMBER 4 & 5, 1998 OAKLAND MARRIOTT CITY CENTER

CONFERENCE SESSIONS

Regulatory updates	Green Energy	Energy outsourcing
Purchasing strategies	Metering	Infrastructure changes
Financing purchases	Understanding usage	Small business benefits
Energy efficiency	Negotiating contracts	Building management

PLENARY SESSION SPEAKERS

William J. Keese - Chair, CA Energy Commission
Richard P. O'Neill - Dtr. of Policy Analysis, Federal Energy Regulatory Commission
George Sladoje - CEO, CA Power Exchange Corporation
Jeffrey D. Tranen - CEO, CA Independent System Operator

KEYNOTE ADDRESS: **Richard A. Bilas** - President, CA Public Utilities Commission

For more information or to register online, go to **http://power.abag.ca.gov**. Call 510/464-7964 with questions. *Cost varies by sessions attended. Discounts for government employees. Register by **October 19** to avoid late fee.*

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